# Verus Wealth Notes – Q4 2022

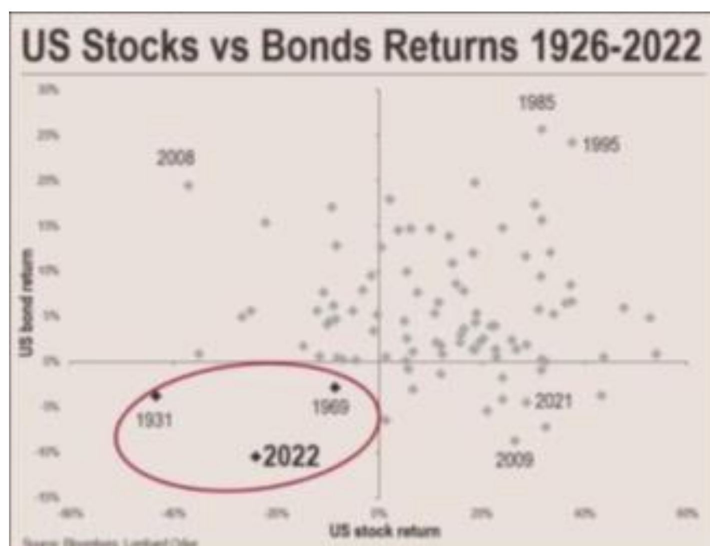
## 2022: A YEAR TO FORGET

There was absolutely no place to hide in 2022. Global bonds and stocks had their biggest ever loss in market value.

| Nowhere to hide | 2022 Return |
|---|---|
| Dow Jones Industrial Average | -8.78% |
| S&P 500 | -19.44% |
| Nasdaq Composite | -33.10% |
| Russell 2000 Index | -21.58% |
| S&P/TSX Composite (Canada) | -8.66% |
| DAX (Germany) | -12.35% |
| Nikkei 225 (Japan) | -9.37% |
| Hang Seng (Hong Kong) | -15.46% |
| Shanghai Composite (China) | -15.13% |
| MSCI World | -17.73% |
| MSCI EAFE (Europe, Australasia, & the Far East) | -17.96% |
| S&P/TSX Real Estate (Canada) | -20.54% |
| CDN $/ US$ | -6.49% |
| FTSE Universal Bond Index | -11.69% |
| FTSE Long-term Bond Index | -21.76% |
| FTSE Short-term Bond Index | -4.04% |
| Bitcoin | -64.27% |

Source: Verus Financial

In 2022, we had a nearly unprecedented decline in both US stocks and bonds, which occurred on only two previous occasions – in 1931 and 1969 (chart below). This should serve as a very important lesson that, seemingly sure, correlations such as bonds going up when stocks decline which gave rise to the popular 60/40 in investment strategy can, and do, break down




Source: Bloomberg, Lombard Odier

Putting 60% of a portfolio in stocks and 40% in bonds is supposed to hedge against both assets dropping simultaneously. Rapidly rising inflation and interest rates completely hammered both asset classes.

Inflation in the US stood at 1.40% in January 2021. By June of 2022, it skyrocketed to 9.1%, a 40-year high. Currently, as of November 2022, US inflation sits at 7.1%. Canada's annual inflation rate was at 6.8% in November of 2022.

The current Federal Reserve interest rate or federal funds rate is 4.25 - 4.50% as of December 14th, 2022. The federal fund rate was 0.00 - 0.25% in January 2022, an astounding 1600% increase. Percentagewise, the 2022 rate hike cycle is the fastest in history, which is nearly twice as fast as the rate hike cycle of 1988-1989. The Bank of Canada rapidly increased its policy rate from 0.25% in March 2022 to 4.35% in December 2022 – a staggering 1640% increase which has led to substantially higher prime rates and mortgage rates.

These two factors mentioned above are the key factors that led to the worst performance of a 60/40 portfolio in over a century.

"60/40" portfolio ann. worst YTD return in past 100 years

Source: BofA Global Investment Strategy, Global Financial Data 2022

With a drop of more than 20% in 2022, the MSCI All-Country World Index had its worst performance since the 2008 Great Financial Crisis, wiping out a record $18 trillion.

The tech-heavy Nasdaq Composite has its worst decline in 14 years, tumbling 33.10%. Tech stocks are vulnerable to higher rates because investors are often paying for the promise of future earnings (which are affected by higher interest rates) when buying into these companies.

From Apple to Amazon to Zoom, it didn't matter what you owned as technology stocks across the board suffered a major market value meltdown.

| Company | % YTD |
|---|---|
| *Microsoft* | -28.36 % |
| *Apple* | -28.61 % |
| *Alphabet - Google* | -39.15 % |
| *Amazon* | -50.47 % |
| *Airbnb* | -50.49 % |
| *Netflix* | -50.64 % |
| *PayPal* | -63.47 % |
| *Zoom* | -63.24 % |
| *Meta - Facebook* | -64.25 % |
| *DocuSign* | -64.70 % |
| *Tesla* | -69.20 % |
| *Rivian* | -82.06 % |

Source: Verus Financial

The Nasdaq 100 shredded a third of its market value in 2022.

Globally, the world's billionaires lost nearly $ 2 trillion combined in 2022, according to Forbes. The United States' billionaires lost $ 660 billion collectively, the highest of any country by Forbes count, as tech stocks took a massive plunge. Elon Musk was the big loser as Tesla's stock price caved almost 70%, and his fortune diminished the most, dropping about $ 115 billion. However, he's not the only billionaire whose net worth took a massive hit. According to Forbes:

- Jeff Bezos – Founder and Chair, Amazon
  Estimated 2022 losses - $80 billion
- Mark Zuckerberg – Co-Founder Meta Platforms (Facebook)
  Estimated 2022 losses - $ 78 billion
- Larry Page – Co-Founder Google
  Estimated 2022 losses - $40 billion

Enough of the bad news. The good news is we can finally put 2022 in the rearview mirror at long last. It was a painful year for investors, to say the least!

**What Does 2023 Have in-store for Investors?**

One thing is absolutely certain, volatility is here to stay, and it could be a bumpy ride for the first few months of the New Year.

Central bankers around the world will play a key role in how 2023 plays out. They got it terribly wrong in 2022. The overwhelming majority of market pundits and central bankers repeatedly told us, "don't worry, inflation is only transitory." The word "transitory" was the key buzzword in mid-2022. That changed rapidly in the last half of 2022, and the new buzzword became "pivot." Pivot, in this context, means when will central bankers stop raising rates and start an easing policy. Well, that is the talk currently consuming Wall Street and Bay Street.

The difficulty in predicting the timing of the pivot is extremely difficult because the Bank of Canada Governor, Tiff Macklem and Federal Reserve Chairman, Jerome Powell missed the mark on rising inflation so badly; they both got it so terribly wrong. They should have started taking the punch bowl away much earlier.

Rather than gradually raising interest rates and slowly reducing monetary policy stimulus, they went gangbusters when they both knew they were dead wrong. Hard assets like stocks and real estate intensely detest rapidly rising interest rates and overzealous moves to reduce the money supply by an alarming 40%. This is what caused all of the collateral damage we have experienced.

Jerome Powell recently said the Federal Reserve is not close to ending its anti-inflation campaign of interest rate increases, as officials signaled borrowing costs will head higher than investors expect next year. This is why we saw more selling pressure in mid-December 2022.

On Wednesday, December 14th, 2022, in Washington DC, Jerome Powell said, “we still have some ways to go.” This comment came on the heels of the Federal OPEN Market committee raising its benchmark by 50 basis points to 4.25 - 4.5% target range. Policymakers projected rates would end next year at 5.1%, according to their median forecast, before being cut to 4.1% in 2024 – a higher level than previously indicated.

Powell said that the size of the rate increase delivered on February 1st, 2023, at the Feds next meeting would depend on incoming data. This leaves the door open for another half-percentage point move or a step down to a quarter point. The challenging news for the markets is he pushed back against bets that the Feds would reserve course next year.

Powell said, “I wouldn’t see us considering rate cuts until the committee is confident that it is moving down to 2% in a sustained way.” “Restoring price stability will likely require maintaining a restrictive policy stance for some time.”

The million-dollar question is, how long will it take to get inflation from its current rate of 7.1% to 2%? That is anyone’s guess!

Everyone is trying to guess when the “pivot” is going to happen. What concerns us at Verus Financial is that if you use history as a guide, there will be more damage to equity markets once the pivot happens.

**When Fed Pivots, Stocks Crash by MORE**

| Recession | Stock Crash | Fed Pivot | S&P Bottom | Pivot --> Bottom |
|---|---|---|---|---|
| Great Financial Crisis | -50.1% | Aug 2007 | Feb 2009 | 18 Months |
| Dotcom Bubble | -38.3% | Dec 2000 | Sept 2002 | 21 Months |
| Gulf War Recession | -4.4% | Jun 1989 | Oct 1990 | 16 Months |
| Double Dip Recession | -16.5% | Jun 1981 | Jul 1982 | 13 Months |
| 1973 Recession | -41.3% | Oct 1973 | Sept 1974 | 11 Months |
| 1969 Recession | -18.9% | Mar 1970 | Jun 1970 | 3 Months |
| **Average** | **-28.3%** | | | **14 Months** |

*Pivot is first month Fed Cut Rates in Economic Cycle; Stocks based on S&P 500

Source: Global Investment Letter December 2022

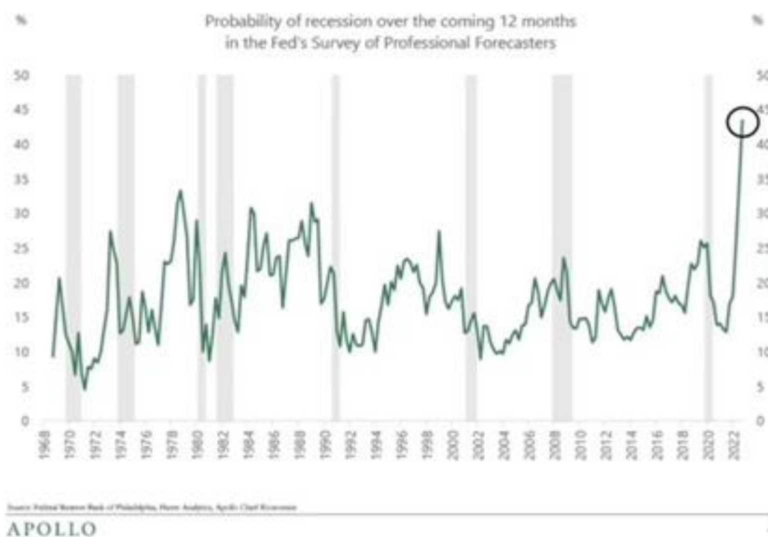
The chart above presents another cautionary tale, demonstrating that market bottoms typically lag Fed “pivots” by months. While this may seem counterintuitive at first thought, there are good reasons for the lag. The economic slowdown produced by interest rate increases is typically reflected in corporate earnings on a delayed basis, as the economic slowing (and negative effect on earnings) continues for some time after the last interest rate increase. The combination of lingering economic weakness and poor earnings reports typically erodes positive investor sentiment, which serves to produce capitulation selling that is often associated with major market bottoms.

The most recent example of this was the Financial Crisis of 2008, where the final market bottom did not occur in the fall of 2008, but in the first quarter of 2009.

We at Verus Financial believe, eventually, declining inflation should allow central banks to pivot to an easing bias. This will become global. Economies will fall into a recession driven by central bankers getting it so wrong and having to overcompensate.

In the US, we anticipate that a 2023 recession will probably be mild, with a lower-than-median decline in GDP and a smaller-than-usual rise in the unemployment rate.

In Canada, we believe the lagged effects of a very tight monetary policy should soon catch up with overindebted households, triggering a recession. A slowing global economy will also be a drag on commodity prices, challenging exports.

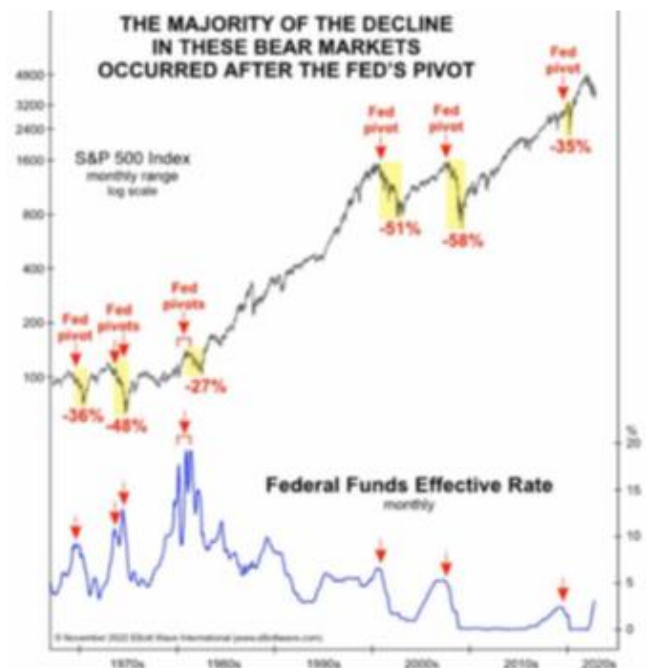



Canadian households now owe $ 1.83 for every dollar of disposable income they have. Canadian consumer debt climbed 7% in 2022, the highest level since the pandemic. Spending on credit cards was up 21% compared to last year. Canadians now have $ 2 trillion in mortgage debt and $ 722 billion worth of other types of debt.

The record for household debt as a proportion of household disposable income was set in the third quarter of 2018 at 184.6%, or almost $ 1.85. This will ultimately have an effect on the Canadian economy.

Since we do expect a recession in 2023, that will be the catalyst for the Feds and central banks to provoke a "pivot." What, then, are the implications for markets?

Source: Global Investment Letter, December 2022



The chart above illustrates that stock markets historically have bottomed out after the Fed made its first interest rate cut. The current widespread optimism that the prospect of a Fed rate cut will soon signal a new bull market is misplaced in two ways. First, there is not yet evidence that the Fed is contemplating such a change (a 50-basis point increase is not a change of policy). Second, the lagging nature of Fed policy means the worst effects of the recession on corporate earnings (which ultimately drives markets) will become apparent only after the first interest rate cut is announced.

It must also be remembered that, historically, the most severe declines of bear markets occur at their end, as positive investor sentiment crumbles to produce the capitulation selling that creates bear market bottoms and the emergence of a new bull market.

Using history as a guide is not an exact science and can be an unreliable tool when used to forecast one's prediction. We have a view that "this time may be different" than what has happened in the past when central bankers "pivot." We say that with caution, as we clearly know, "this time may be different" are the five most dangerous words in the English language.

We have a view that "this time may be different" for the following reasons:

1. In the past cycles, we have not seen interest rates rise to this magnitude so rapidly.

2. Current earnings estimates are being downgraded at an alarming rate. Analysts are tripping over themselves, trying to reset their earnings downward revision. It appears to us that they are throwing out the baby with the bath water. It hasn't taken very long to prove the naysayers wrong. On December 20th, 2022, Nike reported fiscal financial results for its second quarter ended November 30th, 2022.

    - Second quarter reported revenues were $13.3 billion, up 17% compared to the prior year and up 27% on a currency-neutral basis.
    - Nike's direct sales were $5.4 billion, up 16% on a reported basis and up 25% on a currency neutral basis
    - Nike's brand digital sales increased 25% on a reported basis or 34% on a currency-neutral basis
    - Wholesale revenues grew 19% on a reported basis and 30% on a currency-neutral basis

3. Stock valuations are reasonable. The most common way to value a stock is to compute the company's price-to-earnings (PE) ratio. The P/E ratio is calculated by dividing the company's stock price by its most recently reported earnings per share. We clearly believe that earnings will surprise to the upside, despite the inevitable recession. We also believe that many companies' lower earnings projections have already been built into their current share price. This is not the dot-com stock bubble of 2000.

    The dot-com bubble started growing in the late '90s, as access to the internet expanded and computing took on an increasingly important part in people's daily lives. Online retailing was one of the biggest drivers of this growth, with sites like Pets.com – you know, the one with the cute sock-puppet mascot starring in the funny ads – getting big investors and gaining a place in American consumer culture.

    With the investment and excitement, stock values grew. The value of the Nasdaq, home to many of the biggest tech stocks, grew from around 1,000 points in 1995 to more than 5,000 in 2000. Companies were going to market with IPOs and fetching huge prices, with stocks sometimes doubling on the first day. It was a seeming wonderland where anyone with an idea could start making money.

    In March of 2000, everything started to change. On March 10, the combined value of stocks on the Nasdaq was at $6.71 trillion; the crash began March 11. By March 30, the Nasdaq was valued at $6.02 trillion. On April 6, 2000, it was $5.78 trillion. In less than a month, nearly a trillion dollars' worth of stock value had completely evaporated. One JP Morgan analyst told TIME in April of 2000 that a lot of companies were losing between $ 10 and $ 30 million a quarter – a rate that was obviously unsustainable and was going to end with a lot of dead sites and lost investments.

Companies started folding, Pets.com was one. Magazines, including TIME, started running stories advising investors on how to limit their exposure to the tech sector, sensing that people were going to start taking a beating if their portfolios were too tied to e-trailers and other companies that were dropping like flies.

Back then, the reality was that very few companies had positive earnings, which is NOT the case today. Go back and review the dramatic drawdown of today's leading technology companies on page 3. The huge difference today is that these tech companies have strong earnings – the good growth potential. They also have much cleaner balance sheets than the tech companies of 2000. Many of the tech companies today have incredibly strong balance sheets with enormous amounts of cash. That is why this will NOT be a repeat of the dot-com crash.

- Apple's Earnings per share (EPS) is currently $6.11 a share trailing 12 months (TTM). They also have over $200 billion in cash and short-term investments
- Alphabet (Google) EPS is currently $5.01 (TTM) with approximately $170 billion in cash and short-term investments
- Microsoft EPS is currently $9.28 (TTM) and they have over $130 billion in cash and short-term investments
- Amazon EPS is currently $1.08 (TTM) and their cash and short-term investments and cash total over $85 billion
- Meta (Facebook) despite being down -64% has $11.48 (TTM) with over $54 billion in cash and short-term investments. It also trades at a ridiculously low price to earnings (P/E) of 11.48 X.

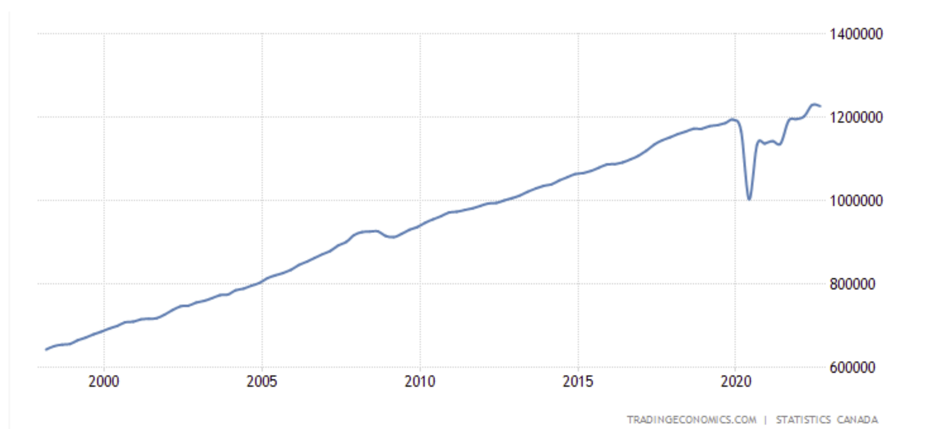
To put this all-in perspective, Canada's largest company Royal Bank has an entire market capitalization of $176 billion, trades at 11.51 X P/E ratio and has $72 billion in cash and short-term investments.

4. Unemployment remains at extremely low levels on both sides of the border. Canada's current unemployment rate as of November 2022 sits at 5.1%, which is close to a 30-year low. In the US, the current unemployment rate stands at 3.7% in November 2022, its lowest level since World War I.

   Low unemployment is usually regarded as a positive sign for the economy. The more people working, the more likely consumer spending will remain strong. A very low rate of unemployment can have negative consequences, such as inflation and reduced productivity. That's why Jerome Powell's and Tiff Macklem's goals of reducing inflation back to their target rates of 2% is nothing more than a pipe dream.

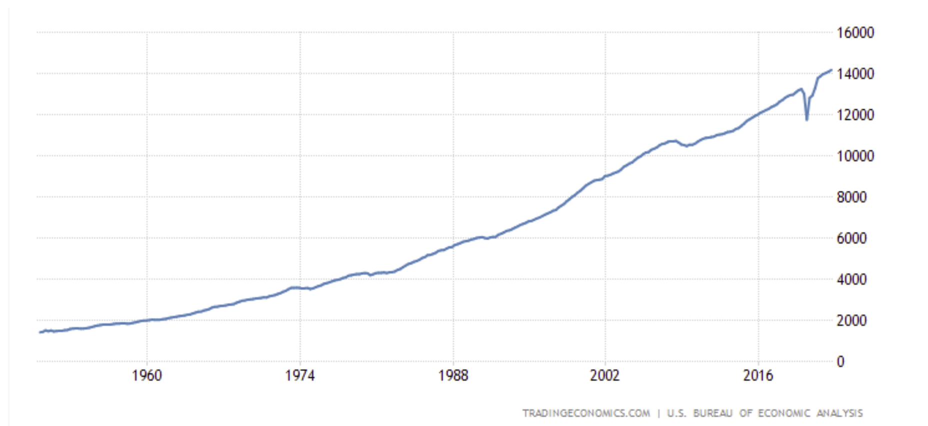
5. Consumer spending comprises 70% of Gross Domestic Product (GDP) in both Canada and the US. Despite rapidly rising inflation, consumer spending decreased only slightly in the third quarter of 2022. Consumer spending fell to 1,226,390 (CAD million) in the third quarter from 1,229,469 (CAD million) in the second quarter of 2022.

**Canada Consumer Spending**




Source: Trading Economics

**Consumer spending in the United States reached an all-time high of 14178.56 (USD billion) in the third quarter of 2022.**




Source: Trading Economics

US holiday sales were up 7.6% in 2022, despite inflation. Holidays sales remained resilient during the critical shopping season despite surging prices on everything from goods, gasoline and rent.

Another reason we at Verus Financial are more optimistic for 2023 is the vast amount of economists, analysts, and market pundits are overwhelmingly bearish, and as we have repeatedly said over and over again – the consensus view is usually wrong. While we were taking risk off the table in the third and fourth quarters of 2021, we also had a very cautious outlook going into 2022.

The sense of optimism on Bay Street and Wall Street at the start of 2022 was staggering. As it turned out, Wall Street's top stars got blindsided by the 2022 market collapse. The year began with faith that inflation would fade and the Fed would hold rates low. Then came the brutal awakening.

Marko Kolanovic, Co-head of Global Research at JP Morgan Chase and John Stoltzfus, Managing Director and Chief Market Strategist at Oppenheimer Asset Management Inc, two of the loudest stock bulls on all of Wall Street, were convinced of one thing at the outset of 2022: The Federal Reserve would go slow, very slow, with its plan to raise interest rates. It didn't matter to them that inflation had already soared to the highest level in four decades. The rate increases, they said, would come in increments so small that financial markets would barely feel them.

Kolanovic predicted a broad rally and had a target for the S&P 500 at 5,050 by the end of 2022. Stoltzfus was even bolder, with a target of 5,330.

Both men were miserably wrong, as the S&P 500 closed out the year at 3,839.56. Kolanovic missed the mark by 1211 points or 24%, and Stoltzfus missed by an astounding 1491 points or 28%.

With very few expectations, the best and the brightest in equities and bond markets failed to appreciate how the inflation outbreak would flip the investing world in 2022. They completely failed to anticipate how the Fed would react. The rate increases came at a blazing pace, so not measured. They failed to see how that, in turn, would trigger the worst simultaneous rout in stocks and bonds since at least the 1970s.

There are 865 actively managed stock mutual funds domiciled in the US with at least $1 billion in assets. On average, they lost 19% in 2022. Equity-loving hedge funds got hammered, too. On the bond side – a universe of 200 funds of a similar size – the average decline was 12%. A majority of them fared worse than the indexes they use as benchmarks to gauge their performance.

Prominent among those was Western Asset Management's biggest mutual fund – the Core Plus Bond Fund. Ken Leech, the company's chief investment officer, was, just like Kolanovic and Stoltzfus, convinced the Fed was in no hurry. In late 2021, he predicted there might not even be any rate hikes at all in 2022. The fund, a $27 billion powerhouse, lost 18%. It underperformed 99% of comparable funds.

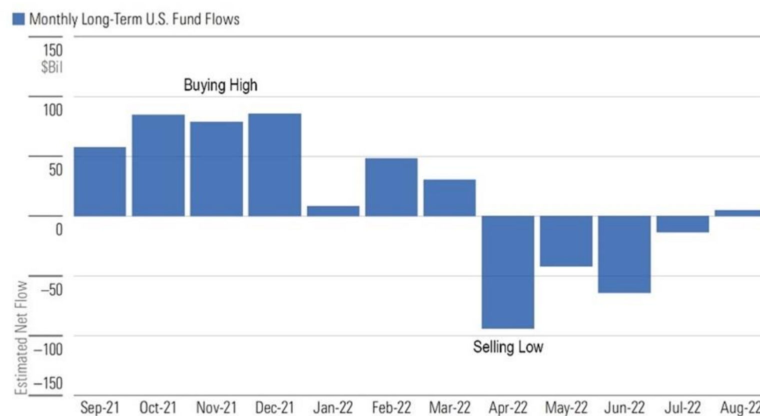
If the so-called best and brightest got it so miserably wrong in 2022, why would you believe their 2023 forecast?

In the first half of 2023, Marko Kolanovic is now forecasting the S&P 500 to re-test the lows of 2022 in the first half of 2023 but believes a pivot from the Feds could drive an asset recovery later in the year, pushing the S&P 500 to 4,200 by year-end. One really needs to think about his prediction for 2023 – it's 850 points or 17% below his 2022 prediction, which is a gain of 361 points or 95% from current levels.

John Stoltzfus predicts a moderate upside in 2023 and is not looking for a Fed pivot. He is not looking for a pause, at least through the first quarter into the second quarter. He does, however, believe that the S&P 500, Nasdaq, and small caps are all oversold.

The final reason we are more optimistic than most is that investors are notorious for selling at the perfectly wrong time.

Investors have dumped equities at a record pace in the days since major central banks signaled they won't be deterred in their fight against inflation. Equity funds were hit by outflows of almost $42 billion – the highest ever – in a week when the Federal Reserve, the European Central Bank and the Bank of Japan all sounded staunchly hawkish in their policy outlook for next year, squashing bets of an imminent return to an era of cheap money. Typical year-end trends contributed to the selling. The figures from Bank of America Corp., Citigroup Inc., and Barclays Plc – all citing EPFR Global data – show investors also pulled out of bonds and cash funds in the week through Dec. 21st, 2022.




Source: Morningstar Direct Asset Flows. Data as of Aug. 31, 2022

And finally, I will close off this fourth-quarter Wealth Notes publication with a brief commentary on crypto.

For those of you who attended the October 20th, 2022, luncheon or watched the video, you will recall I gave my negative comments and opinions on crypto. Four days after the seminar, I received an email from an appreciative client that said, "Thank you for keeping us out of this stuff." A snapshot from the Globe and Mail was attached.

B10 | REPORT ON BUSINESS

THE GLOBE AND MAIL | THURSDAY, NOVEMBER 24, 2022

GLOBE INVESTOR

## Canada's anti-crypto advisers can rejoice

With prices currently collapsing, experts in the investment industry who stayed away are now feeling vindicated

ROB CARRICK

OPINION

Making the right call in investing sometimes requires you to look excruciatingly wrong for a while.

The investment advisers who declined to board the cryptocurrency hype train understand this well. Bitcoin and other cryptocurrencies took off in 2020 and didn't peak until roughly 12 months ago. Anti-crypto advisers and money managers must have hated those days of saying no to something that made so much money for anyone bold enough to dive in.

They're over it now, though. With cryptocurrency prices collapsing, everyone in the investment advice industry who declined to trust crypto with client money is vindicated. Kudos to all for being willing to look bad in the near term so they could be right later on about what's good for investors.

Crypto is still in its infancy and may yet turn out to be a reliable financial asset we commonly invest in or use for making payments. What advisers got right was the idea of staying away during a speculative frenzy that could only end badly. The price of bitcoin, ethereum and other coins is down by half to two-thirds or more this year. FTX, a once-celebrated crypto exchange, has filed for bankruptcy protection with debts in the billions of dollars.

Advisers saw this coming, even while others in the investment industry viewed crypto as an opportunity. The investing app Wealthsimple Trade made crypto trading simple and accessible for individuals. A TSX-listed exchange-traded fund called the Purpose Bitcoin ETF (BTCC-T) was the first of its type in the world, and it sparked a bunch of competitors. The global giant Fidelity Investments added a tiny amount of crypto to its TSX-listed asset allocation ETFs, which are aimed at middle-of-the-road investors.

Anti-crypto advisers and money managers must have hated those days of saying no to something that made so much money for anyone bold enough to dive in.

The most shocking crypto foray by Canada's investing establishment has to be an investment by the Ontario Teachers' Pension Plan in FTX that will result in a US$95-million loss.

For the most part, though, crypto has mostly been a story of individual investors buying in on their own while advisers and money managers mainly watched from the sidelines. Back in March, 2021, I wrote a piece with the headline Why Your Investment Adviser Hates Bitcoin. I surveyed advisers on LinkedIn and found a stern resistance to incorporating it into client portfolios on the basis that it was hard to value and thus too risky.

There wasn't even much take-up on an idea that seemed crafted specifically for advisers – that cryptocurrency would improve the diversification of portfolios by adding a component to complement stocks and bonds. In 2022, crypto's the classic "diworsification" asset: However much your stocks and bonds are down, crypto is worse.

Resisting crypto at its peak took some conviction because prices were rising so fast. Bitcoin pretty much quadrupled from November, 2020, to the same month last year, and other cryptocurrencies soared as well. To stand against crypto as an adviser was to risk coming off like an apologist for an outdated and decaying financial system – just the sort of thing crypto investors saw themselves as rebelling against.

The pressure on advisers to accept crypto must have been intense, given how much faith individual Canadians put in the sector. "Polls seem to indicate that Canadians are more likely to be invested in crypto than American, Australian, or British households," says a recent report from the independent analysis company Morningstar.

Recent analysis from TD Securities said the launch of crypto ETFs helped increase the level of retail investor trading in the non-core "alternative ETF" category to almost 80 per cent of total volumes from 40 per cent early last year.

The Purpose Bitcoin ETF hit $1 billion in assets in March, 2021, a phenomenal achievement for an investment product just one month old. The latest numbers show the fund lost about 70 per cent for the 12 months to Oct. 31, with assets down from March, 2021 levels by half. Thank an adviser today if they saved you from getting caught up in this decline.

Shortly after the seminar, the collapse of FTX came to light, and founder Sam Bankman-Fried was arrested in the Bahamas on Monday, December 13th, 2022, for defrauding investors in what regulators called a "brazen, multi-year scheme," that ended when his empire filed for bankruptcy last month. Approximately $8 billion or more is missing, and $3.1 billion is owed to the company's top 50 creditors, according to the bankruptcy filing from FTX. A class action lawsuit that was recently filed on behalf of investors alleging celebrities and superstar athletes promoted the FTX to unsophisticated investors without performing any due diligence on the cryptocurrency exchange. The list includes Shaquille O'Neal, former NBA champion Udonis Haslem and current champ Stephen Curry, tennis champion Naomi Osaka, baseball Hall of Famer David Ortiz, NFL GOAT Tom Brady and his wife Gisele Bundchen, NFL quarterback Trevor Lawerence, MLB star Shohei Ohtani and comedian Larry David.

Kevin O'Leary, aka "Mr. Wonderful," my least favourite celebrity, was caught up in the scandal. The Shark Tank star has revealed that FTX paid him about $15 million to become its spokesperson.

It's hard to fathom how one of the largest pension plans in the world could invest in FTX. The Ontario Tearchers' Pension Plan, which manages the retirement funds of 333,000 teachers in the Canadian province, invested a total of $95 million between FTX and FTX US in late 2021 and early 2022. The FTX portion of that investment alone was worth an estimated $130 million following FTX's series C round before the crypto winter and current crisis. "While there is uncertainty about the future of FTX," Ontario Teachers wrote in a statement. On November 17th, the pension plan said that it will write down its FTX investment to zero at year-end. The million-dollar question is – where was their due diligence?

In our view, the collapse of FTX will put pressure on Bitcoin and other crypto firms for several years. Bitcoin plunged over 60% last year, and there are many headwinds currently confronting these firms. Investor confidence has been shattered, and the disaster will certainly stir regulators into action as the industry is largely unregulated. Consolidation will emerge, and fewer firms and coins will exist in the years to come. Future funding for these projects will be very scarce.

One thing I very seldom do in our quarterly Wealth Notes publication is give you other people's outlandish predictions. I decided to share this one with you because it fundamentally and logically makes zero sense to me.

"Bitcoin bull Tim Draper had one of the most optimistic calls on bitcoin of 2022, predicting the token would be worth $250,000 by the end of the year. In November 2022, the billionaire venture capitalist said he's extending the timeline for that prediction until mid-2023. Even after the collapse of FTX, he's convinced the coin will hit the quarter-of-a-million milestone. My assumption is that since women control 80% of retail spending, and only 1 in 7 bitcoin wallets are currently held by women that the dam is about to break," Draper told CNBC via email.

After managing money for close to 40 years, there is one undisputable fact – my female clients are substantially more risk-averse than my male clients. Therefore, I firmly believe his assumption is ludicrous, as I don't see the female population using bitcoin for their retail spending.

2023 brings with it more risks than just inflation and rising interest rates, which we thoroughly discussed in this newsletter. Other challening potenital risks include:

- China
  - → The reopening of their economy, and the new Omicron Covid variant, dubbed 'Kraken' (XBB.1.5), spreading globally
  - → Remains a strategic threat to the United States
  - → There is virtually no transparency
  - → US – China trade-wars tension re-emerge
  - → The preparation of China invading Taiwan

- The war in Ukraine
  - → The current conflict has severely strained US Russia relations and increased risk of a wider European conflict
  - → The risk of a nuclear incident in the Ukriane remains an unacceptable danager

- The dreaded "R" word

- Growing likelihood of a US and global recession
  - → The serverity of the recession and the impact on corporate profits

- A commodity collapse
  - → Commodities were a safe haven in 2022, however, they tend to perform very poorly during recessions and/or economic slowdowns

- Home prices plummet
  - → One of the biggest housing booms in history could give way to a truly epic bust in 2023 due to the huge escalaion in mortage rates

Bottom: Patience will be key for investors in 2023, especially in the early stages of the new year. For those who are able to withstand the volatility, they should be rewarded with solid gains in the last half of the year. We remain extremely confident that we will be able to get you through these immense challenging times, just like we have in the past.

Please mark your calendars for our up and coming client appreciation luncheon at Marine Dirve Golf Course on April 20th, 2023. Tom Deans, Ph.D., will be our guest speaker. Tom is the author of the international best-seller, "Willing Wisdom." By combining humour and his experience as president of a family-owned multinational corporation for almost a decade, Tom has shown thousands of people how simple it is for family businesses to successfully generate and protect their hard-earned wealth.

Every seminar attendee will receive a copy of Tom's latest book, "Every Family's Business" – 12 common sense questions to protect your wealth. We hope to see you all there.

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Also, Cody and I will be doing a webinar in early February to bring you all up to speed on what our current thoughts are. We are going to start sending out our fourth-quarter/year-end Quarterly Performance Reports starting this week. As always, I will be following up with each and every one of you over the next 6 weeks.

It would be greatly appreciated if you could take the time to read this edition of the Wealth Notes prior to our review call with you. As you can appreciate, we have 96 calls to make, and the purpose of this call is to discuss your performance, answer any questions you may have, and ascertain whether any circumstances have changed for you and your family. Reiterating our macro outlook, which is thoroughly discussed, is an inefficient, nonproductive use of time. As always, we want to focus on you and your family.

We look forward to talking to you and answering any questions you may have.

Yours in Investing Strategies,

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